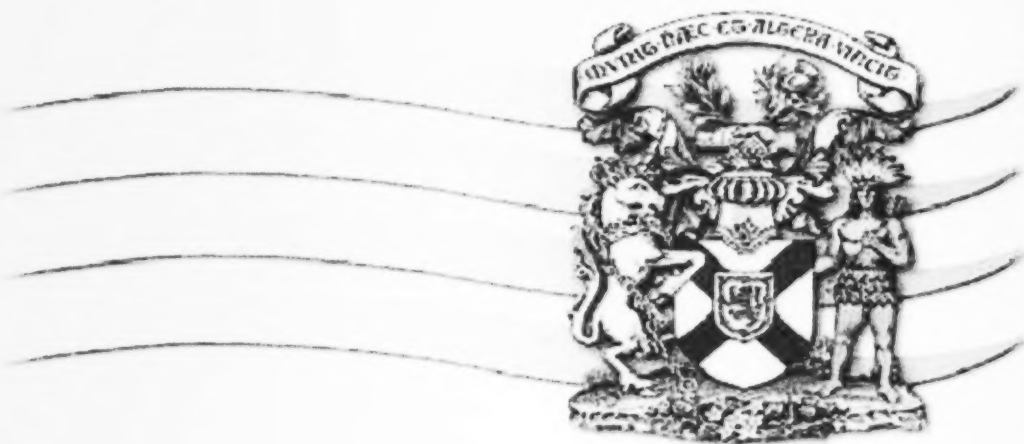


Financial Report

Province of Nova Scotia

for the fiscal year 1998-1999

THE HONOURABLE NEIL J. LEBLANC, MINISTER OF FINANCE



The annual Financial Report of the Province of Nova Scotia highlights selected financial information from the Consolidated Financial Statements for the year ended March 31, 1999 with comparative information for the 1997-1998 fiscal year. In addition, this report presents key statistics and economic information.

This document, the complete Public Accounts and other financial publications may be obtained by writing to:

Kevin D. Malloy, CA
Controller
Department of Finance
Post Office Box 187
Halifax, Nova Scotia
B3J 2N3

E-Mail: Infofinance@gov.ns.ca

or may be obtained on the
Department's Internet Website at:

<http://www.gov.ns.ca/finance>

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Message from the Minister

Publication of the financial statements for the year ended March 31, 1999 marks a new era in financial accountability for Nova Scotia.

Past reports showed budgetary deficits and surpluses that focused on a narrow definition of accountability. To understand the true financial position of the province, a detailed examination of the notes to the audited financial statements was required. In addition, the presentation of the budgetary surplus or deficit did not include all of the adjustments required under Generally Accepted Accounting Principles.

Today, this report includes a much wider definition of accountability, and uses accounting policies that comply with Generally Accepted Accounting Principles. The move to proper accounting for tangible capital assets and pensions for fiscal 1999-2000 will complete Nova Scotia's transition to these new accounting policies first outlined in the spring of 1998 in the publication *"Financial Accountability: A Blueprint for Success"*.

As a result of the new accounting standards, it has become apparent that Nova Scotia faces a significant financial challenge in the years ahead.

The calculation of the Provincial Surplus/(Deficit) now includes all significant financial transactions in that year. By including the true operating and capital costs of the healthcare sector, the losses of commercial crown corporations such as Sydney Steel Corporation and Nova Scotia Resources Limited, and a more appropriate amortization schedule for foreign exchange gains and losses, the cost of public policies in these areas becomes more apparent.

Now that these costs are clear, the government is in a position to tackle the root causes. Advice is being sought on the scope and major roles of government. All government programs are being analyzed to determine which ones are still achieving original goals in an efficient and effective manner. The analysis and advice will become the foundation for a new four year effort to table a truly balanced budget in fiscal 2002-2003, and a reduction in personal income taxes in fiscal 2003-2004.

The government recognizes the magnitude of this challenge but is determined to set Nova Scotia on a path toward true financial sustainability.

*Honourable Neil LeBlanc
Minister of Finance*

Accounting Policy Changes

Introduction

The Government of Nova Scotia recognizes that its primary financial accountability document is the annual financial statements. A number of changes have taken place to improve the financial statements and still others are planned. The statements for the fiscal year ended March 31, 1999 represent a significant step toward fully adopting generally accepted accounting principles. The objective is to ensure that the statements fully and openly disclose the financial results of operations and the Province's financial position.

The Standard

The recommendations and guidelines of the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Board (PSAB), supplemented where appropriate by other CICA accounting standards and guidelines, provide an authoritative foundation for the Government of Nova Scotia as it relates to what constitutes appropriate accounting for and disclosure of the Province's financial position and results. PSAB's recommendations have, to a significant extent, become generally accepted practices for governments.

Changes in Accounting Policy

There has been two major changes to the accounting policies used in the preparation of the annual financial statements. The Government of Nova Scotia, for the first time, has prepared consolidated financial statements. Consolidation recognizes that government has a broad accountability and thereby includes the results of operations from entities that are effectively either controlled or owned by the Province. Most notably, the operating results of Sydney Steel Corporation and Nova Scotia Resources Limited are now fully reflected in the consolidated income statement. The manner in which the Province accounts for foreign exchange gains and losses represents the second major accounting policy change. The time frame over which gains and losses are charged to operations has been modified to reflect generally accepted accounting principles.

Principles of Consolidation

To determine the entities that are to be consolidated in the government reporting entity, there was a careful analysis of three main criteria: accountability, ownership and control. The Public Sector Accounting Board provides further guidance: "The government reporting entity should comprise the organizations that are accountable for the administration of their financial affairs and resources either to a Minister of the government or directly to the legislature, ... and are owned or controlled by the government..."

Once an entity is found to form part of the government reporting entity then they must be further defined as a government service organization or a government business enterprise. An entity is defined as a government service organization unless it meets certain criteria which must be met for it to be considered a government business enterprise. The four criteria are:

- i) it is a separate legal entity;
- ii) it has been delegated the financial and operational authority to carry on its business;
- iii) it sells goods/services to individuals or organizations primarily outside the government reporting entity; and,
- iv) in its normal course of business it is self-sufficient.

From an accounting perspective, the treatment of a government service organization and a government business enterprise is quite different. Government service organizations are consolidated on a line-by-line basis into the assets, liabilities, revenues and expenditures of the consolidated financial statements. Government business enterprises are shown as a one line total collectively as the accumulated surplus or deficit from the audited financial statements of the government business enterprises.

Listed below are the government service organizations and the government business enterprises included in the government reporting entity at the present time.

Government Service Organizations

Annapolis Valley Regional School Board	Nova Scotia Gaming Foundation
Art Gallery of Nova Scotia	Nova Scotia Harness Racing Incorporated
Bedford Waterfront Development Corporation	Nova Scotia Hospital
Cape Breton Healthcare Complex	Nova Scotia Housing Development Corporation
Cape Breton Victoria Regional School Board	Nova Scotia Housing Development Fund
Central Regional Health Board	Nova Scotia Innovation Corporation
Check Inns Limited	Nova Scotia Legal Aid Commission
Chignecto-Central Regional School Board	Nova Scotia Municipal Finance Corporation
College de l'Acadie	Nova Scotia Police Commission
Conseil Scolaire Acadien Provincial	Nova Scotia Power Finance Corporation
Consolidated Fund (1)	Nova Scotia Primary Forests Products Marketing Board
Eastern Regional Health Board	Nova Scotia Utility and Review Board
Fisheries and Aquaculture Development Fund	Novaco Limited
Halifax Regional School Board	Provincial Community Pastures Board
Industrial Expansion Fund	Provincial Drug Distribution Program
Insured Prescription Drug Plan Trust Fund	Public Archives
Izaak Walton Killam-Grace Health Centre	Queen Elizabeth II Health Sciences Centre
Law Reform Commission	Resource Recovery Fund Board Incorporated
Northern Regional Health Board	Rockingham Terminal Incorporated
Nova Scotia Arts Council	Sherbrooke Restoration Commission
Nova Scotia Business Development Corporation	Southwest Regional School Board
Nova Scotia Community College	Strait Regional School Board
Nova Scotia Crop and Livestock Insurance Commission	Sydney Environmental Resources Limited
Nova Scotia Farm Loan Board	Tidal Power Limited
Nova Scotia Film Development Corporation	Trade Centre Limited
Nova Scotia Freedom of Information and Protection of Privacy Review Office	Upper Clements Family Theme Park Limited
	Waterfront Development Corporation
	Western Regional Health Board

Government Business Enterprises

Halifax-Dartmouth Bridge Commission
Highway 104 Western Alignment Corporation
Nova Scotia Gaming Corporation
Nova Scotia Liquor Commission
Nova Scotia Resources Limited
Sydney Steel Corporation

(1) Includes all departments of government and public services units.

(2) In addition to the above entities that make up the Government Reporting Entity for financial statement purposes, the Province has certain fiduciary responsibilities for various trusts (see the Public Accounts for the year ending March 31, 1999, Volume 1, Note 7).

Future Accounting Changes

There are two major initiatives underway which will impact on the March 31, 2000 consolidated financial statements.

Tangible Capital Assets

The Province of Nova Scotia is currently revising its policy of accounting for tangible capital assets. In previous years, capital assets, such as equipment, vehicles and buildings, were fully expensed in the year they were acquired, despite the fact that they had significant value for years to come. It is the intention of the government to adopt generally accepted accounting principles for the accounting of such purchases with the tabling of the Financial Statements for 1999-2000.

Pension Cost Accounting

Concerning the accounting for pension costs, the Province currently records the cash cost of pension plan contributions as the expense for the current year. The generally accepted practice would be to record the actual cost of the pensionable service earned by the employees in the current year. This change will likely result in a relatively minor increase in costs. However, the Province also intends to adopt new accounting principles with respect to the change in the unfunded liabilities of the pension plans. The full impact of this accounting change needs to be researched further. Until the research is complete and the full policy is implemented for 1999-2000, other pension fund valuations will continue to be shown as a change in Net Direct Debt for 1998-1999.

Selected Financial Highlights

Budgetary Summary

(\$ millions)

ACTUAL 1997-1998 (restated)		ESTIMATE 1998-1999	ACTUAL 1998-1999
	Consolidated Fund (1)		
4,424.8	Ordinary Revenue	4,382.7	4,550.6
	Net Expenditures		
3,750.1	Net Program Expenditures	3,690.8	4,005.8
653.5	Net Debt Servicing Costs	690.7	805.7
4,403.6		4,381.5	4,811.5
21.2		1.2	(260.9)
10.0	Less: Provision for Distribution of Budgetary Surplus	—	—
11.2		1.2	(260.9)
	Consolidation Adjustments for Government Service Organizations (2)		
(40.1)	School Boards Operations and Pension Obligations		(33.7)
(102.5)	Health and Hospital Boards Debt and Deficits		(106.3)
(429.0)	Other Organizations		(145.2)
(571.6)			(285.2)
	Net Income (Losses) for Government Business Enterprises (3)		
(57.8)	Nova Scotia Resources Limited		(75.8)
(60.6)	Sydney Steel Corporation		(31.3)
236.7	Other Enterprises		267.8
118.3			160.7
(442.1)	Provincial Surplus (Deficit) (4)		(385.4)

Notes: (1) The Consolidated Fund is comprised of Ordinary Revenue and Net Expenditures consistent with the information presented to the Legislature on the 1998-1999 Budget in June 1998.

(2) The consolidated adjustments for Government Service Organizations is the net result of the elimination of the inter-organizational transactions between the government departments and the related government service organizations.

(3) The net income (losses) of Government Business Enterprises reflects the net income/(loss) of these organizations, details of which can be found in the Public Accounts for the year ending March 31, 1999, Volume 1, Schedule 7.

(4) The Provincial Surplus (Deficit) calculated in this table reflects the same result as the Consolidated Statement of Revenue and Expenditures, which can be found in the Public Accounts for the year ending March 31, 1999, Volume 1, Statement 2.

The Government of Nova Scotia has made significant changes in the way it presents financial information. The objective is to present the information in a complete and understandable manner, consistent with generally accepted accounting principles. Accounting policy changes have been implemented effective March 31, 1999 which impact on the final results for fiscal 1998-1999.

The policy of consolidated financial reporting provides improved disclosure of the full nature and extent of the financial affairs and resources for which government is responsible. Consolidated financial reporting includes entities, such as Nova Scotia Resources Limited and the Sydney Steel Corporation, that are accountable to a Minister, as well as organizations, like the health and school boards, that depend on the Province for a major portion of their funding.

The actual results for the 1997-1998 fiscal year have been restated for comparative purposes in accordance with the changes in the presentation of the financial information and the changes in accounting policy. Details of the restatements can be found in the appropriate sections of this report.

**Consolidated Statement of
Net Direct Debt**

(\$ millions)

	ACTUAL 1997-1998 (restated)	ACTUAL 1998-1999
Opening Balance	8,369.1	9,290.5
Prior Period Adjustments	769.4	—
Net Direct Debt - beginning of year	9,138.5	9,290.5
Add (Deduct):		
Provincial Deficit	442.1	385.4
Distribution of Surplus	10.0	—
Provision for Change in Unfunded Pension Liabilities	(300.1)	252.3
Increase (Decrease) in Net Direct Debt	152.0	637.7
Closing Balance	9,290.5	9,928.2

Net Direct Debt is calculated by subtracting the total amount of financial assets from the total amount of liabilities recorded on the province's financial statements at the end of each fiscal year.

Several accounting policy changes and corrections to prior years have been reflected retroactively in the Consolidated Statement of Net Direct Debt. These changes include the following:

- i) the Province has changed its accounting policy from reporting on a non-consolidated basis to reporting on a consolidated basis;
- ii) the Province has changed its accounting policy for foreign exchange translation gains and losses and discounts and premiums by adjusting the amortization period from 20 years to the remaining life of the issue;
- iii) a correction to a calibration factor in the Harmonized Sales Tax revenue estimation model; and,
- iv) a re-assessment of a school lease signed in 1998 has resulted in the reclassification of the lease from an operating lease to a capital lease.

Program Spending - Consolidated Fund

Net Program Expenditures

(\$ thousands)

DEPARTMENTS	ACTUAL	ESTIMATE	ACTUAL	VARIANCE
	1997-1998 (restated)	1998-1999	1998-1999	Increase (Decrease)
Agriculture and Marketing	33,480	34,296	35,626	1,330
Business and Consumer Services	38,565	29,213	31,318	2,105
Community Services	556,825	559,967	565,829	5,862
Economic Development and Tourism	86,931	58,904	77,268	18,364
Education and Culture	778,842	829,193	898,330	69,137
Assistance to Universities	182,980	188,493	188,487	(6)
Environment	17,019	16,023	15,480	(543)
Finance	9,430	9,781	8,332	(1,449)
Fisheries and Aquaculture	6,355	5,885	5,863	(22)
Health	1,426,686	1,455,102	1,632,042	176,940
Housing and Municipal Affairs	96,864	107,330	106,328	(1,002)
Human Resources	4,003	4,118	3,983	(135)
Justice	75,257	74,724	80,118	5,394
Labour	24,145	9,303	10,328	1,025
Natural Resources	59,528	55,064	53,886	(1,178)
Public Service	55,822	70,103	67,389	(2,714)
Transportation and Public Works	263,180	236,526	236,468	(58)
Unallocated Recoveries	(20,134)	(56,330)	(14,099)	42,231
Restructuring Costs	54,267	3,129	2,784	(345)
	3,750,045	3,690,824	4,005,760	314,936

Notes: The consolidation of departmental expenditures with that of government service organizations provides the total expenditures for which government is accountable. This table provides the net program expenditures by department prior to consolidation as compared to the prior fiscal year and the budget, which are the Estimates as approved by the Legislature in the annual Appropriations Act.

The actual expenditures for fiscal 1997-1998 for the Department of Education has been restated, through an increase in expenditures of \$7.2 million, to recognize the capitalization of the construction costs of Sherwood Park Junior High School in Sydney, which was originally recorded as an operating lease.

In total, net program expenditures in fiscal 1998-1999 increased by \$314.9 million over the original budget of nearly \$3.7 billion to slightly more than \$4.0 billion. Eight departments and five Public Service votes ended the fiscal year with over-expenditures totaling \$280.9 million. The remaining departments and Public Service votes came in under-budget by a total of \$8.2 million.

Also, there was a \$42.2 million reduction in Unallocated Recoveries because of a change in the method used for recording the two years of pension contribution holidays. The Province had originally recorded two years of pension contribution holidays as cost recoveries in 1998-1999. The contribution holiday reduced the pension plan assets (cash) and correspondingly decreased the surplus position of the Public Service Superannuation Plan. To more accurately reflect this overall change, the Province is recording the total of the contribution holiday and the increase in pension liability as a single charge to Net Direct Debt instead of as a cost recovery.

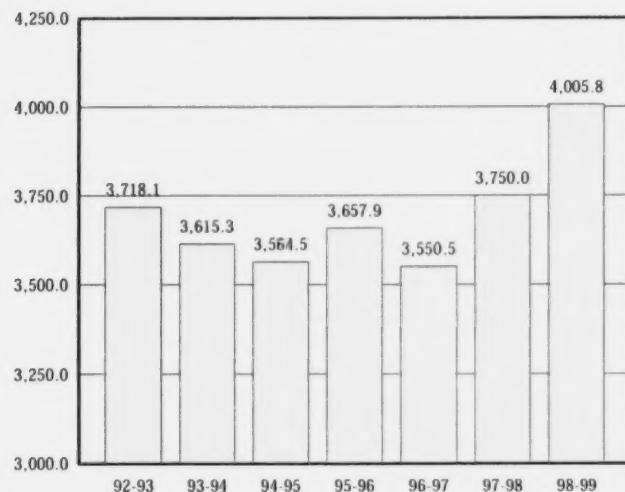
The actual expenditures for fiscal 1998-1999 for the Department of Health reflect an over-expenditure of \$176.9 million. Of this amount, \$123.6 million is the reflection of the proper presentation of the health and hospital board deficits incurred in fiscal 1998-1999. The remaining \$53.3 million was required to meet the province's commitments to the new blood supply system, improvements to the emergency health delivery system and increased service demands on the health care system.

The Department of Education and Culture overspent its budget by \$69.1 million, with the largest portion of the over-expenditure resulting from the accounting review of the first four private-public partnering (P3) school leases. The review revealed that the risk transfer from the public partner to the private partner was insufficient to classify the expenditure as an operating lease. Accordingly, the current year construction cost of \$55.7 million had to be recorded as an expense in 1998-1999. A capital lease liability was recorded and will be reduced over the term of the lease payments. A \$7.2 million adjustment was also made for capital costs in fiscal 1997-1998.

The remaining \$13.4 million in over-expenditures in the department resulted from additional school capital construction costs in order to recognize full inter-departmental liabilities and an increase in the allowance for outstanding student loans as a result of a change in the risk premium.

Net Program Expenditures - Consolidated Fund **1992-1993 to 1998-1999**

(\$ millions)



Agriculture and Marketing's spending increased by \$1.3 million over the original budget because the department had to recognize the full liability for the 1997 Weather Related Loss Program in fiscal 1998-1999.

Business and Consumer Services reported an over-expenditure of \$2.1 million because of a loss in expected funding from the Economic Diversification Agreement.

The Department of Community Services required additional funding of \$5.9 million to meet additional pressures in services to children and income support payments. Economic Development and Tourism previously entered into a number of agreements with businesses whereby their job creation efforts were funded when they met certain targets. Those targets were met in fiscal 1998-1999, which contributed to the over-expenditure of \$18.4 million.

There was an increase of \$5.4 million in Justice because the anticipated recovery from the Compensation for Institutional Abuse Program did not materialize. Labour recorded an over-expenditure of \$1.0 million as a result of payments to former Westray employees for severance pay which totaled \$1.8 million. These payments were offset, in part, by savings in other areas of the department.

Revenues - Consolidated Fund

(\$ thousands)

REVENUE SOURCES	ACTUAL 1997-1998 (restated)	ESTIMATE 1998-1999	ACTUAL 1998-1999	VARIANCE Increase (Decrease)
Provincial Sources				
Personal Income Tax	997,562	980,752	992,205	11,453
Corporate Income Tax	121,682	122,622	119,356	(3,266)
Harmonized Sales Tax	694,942	737,373	723,391	(13,982)
Tobacco Tax	70,660	76,505	74,598	(1,907)
Motive Fuel Taxes	204,114	207,300	211,606	4,306
Gaming Corporation Profits	141,172	160,171	144,414	(15,757)
Liquor Commission Profits	118,477	121,400	129,200	7,800
Interest Revenues	34,844	33,856	32,784	(1,072)
Registry of Motor Vehicles	54,884	57,100	60,980	3,880
Other Provincial Sources	155,583	179,722	186,218	6,496
Total - Provincial Sources	2,593,920	2,676,801	2,674,752	(2,049)
Federal Sources				
Equalization	1,194,359	1,183,503	1,260,683	77,180
Canada Health and Social Transfer	438,669	440,647	426,874	(13,773)
Federal Compensation for Harmonization	118,600	77,700	77,700	—
Other Federal Sources	3,296	4,067	3,845	(222)
Total - Federal Sources	1,754,924	1,705,917	1,769,102	63,185
Prior Years' Adjustments - Federal-Provincial Fiscal Arrangements	75,962	—	106,769	106,769
Total - Revenues	4,424,806	4,382,718	4,550,623	167,905

Note: The actual revenues for the fiscal year 1997-1998 for the Harmonized Sales Tax (HST) have been restated, with a decrease of \$21.955 million, to recognize an adjustment in the model used to determine the HST projections.

Total Ordinary Revenues were \$4,550.6 million for the fiscal year 1998-1999, \$167.9 million higher than estimated in the Budget.

Personal Income Tax revenues were \$11.5 million higher than the Estimate of \$992.2 million. The main factor contributing to this improvement was an increase in the level of basic federal tax, the base upon which Nova Scotia's Personal Income Tax (PIT) is calculated. A positive adjustment of \$25.0 million, in respect of prior years was also recorded for personal income taxes.

Corporate Income Taxes decreased \$3.3 million from the Estimate of \$122.6 million. A positive prior years' adjustment of \$14.9 million was recorded in respect of corporate income taxes, reflecting prior years growth in national and provincial corporate income levels.

The Harmonized Sales Tax (HST) revenues are \$14.0 million lower than estimated for fiscal 1998-1999. A negative prior years adjustment of \$7.1 million was recorded due to larger than anticipated levels of rebates. Despite a drop in the provincial sales tax rate from 11.0 percent to 8.0 percent, tax revenues are back to pre-harmonized levels. This is because the HST tax base is growing faster than the former tax base. In 1996, Nova Scotia received \$249.0 million in federal compensation to offset the revenue loss due to harmonization of its provincial sales tax with the Goods and Services Tax (GST). Nova Scotia allocated \$118.6 million in fiscal 1997-1998 and \$77.7 million in fiscal 1998-1999 with the remaining to be allocated to fiscal 1999-2000. This apportionment was to match the expected revenue gap between the old Provincial Sales Tax and the new Harmonized Sales Tax.

Under the terms of the harmonized agreement, HST revenues are collected by the federal government and distributed to participating provinces according to a revenue allocation formula. The formula is currently under development by the federal government and participating provinces. As an interim measure, the federal government is making a series of pre-determined payments, adjusted for provincial rebates. The formula is expected to be complete by July 1, 2000, at which time the Province could be subject to a prior years' adjustment (positive or negative) based on the difference between the formula allocation and the amounts recorded by the Province.

Nova Scotia Gaming Corporation profits were down \$15.8 million in 1998-1999 from the original Estimate for two main reasons; the policy decision to limit the number of Video Lottery Terminals and the dispute with the Atlantic Lotto Corporation.

Nova Scotia Liquor Commission profits increased \$7.8 million over the Estimate due to increased sales resulting from a strong tourist season and strong consumer spending, and competitive promotions on the various products.

Federal transfers amounted to \$1,769.1 million in 1998-1999, an increase of \$63.2 million over the initial estimate. Equalization revenues increased to \$1,260.7 million, which is \$77.2 million higher than estimated.

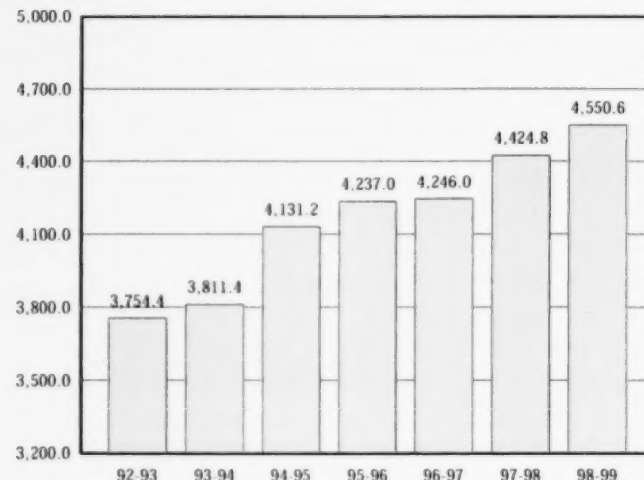
This increase was primarily due to the strong performance of the Ontario economy. The Canada Health and Social Transfer (CHST) cash portion decreased by \$13.8 million over the initial estimate, due to changes in estimates of the values of personal and corporate tax points.

The Province experienced positive Prior Years' Adjustments (PYA's) totalling \$106.8 million in fiscal 1998-1999. PYA's for own-source revenues totalled \$32.7 million and largely reflected adjustments in respect of final personal income tax data for 1997. Changes to federal transfers in respect of prior years resulted in a positive adjustment of \$74.8 million. This was comprised of Equalization adjustments resulting from the stronger performance in the standard provinces, which offset CHST cash decreases resulting from stronger 1997 income tax levels.

Small revisions which totalled a negative \$0.7 million, reflecting adjustments to the Equalization Offshore Revenue Offset and the Corporation Capital Tax, complete the changes in PYA's.

Revenues - Consolidated Fund 1992-1993 to 1998-1999

(\$ millions)



Debt Review

In fiscal 1998-1999, the Province of Nova Scotia posted a \$385.4 million deficit. In fiscal 1999-2000, the Province tabled a budget with a deficit of \$496.6 million. These restated deficits are the result of the Province making significant changes in the way it presents its budgets and financial statements. As a result of these changes, the Net Direct Debt of the Province is \$9.9 billion as of March 31, 1999. The rise in the Province's Net Direct Debt, offset somewhat by provincial economic growth, resulted in a modest increase in the Net Direct Debt to Gross Domestic Product ratio to 46.2 per cent at March 31, 1999 from 44.9 per cent a year earlier.

Capital Markets Issuance Initiatives

The Province of Nova Scotia borrowed \$1.56 billion in fiscal 1998-1999. This was one of the largest borrowing programs in the Province's history, but was down from the previous year's total of \$1.8 billion. The borrowing was used to pay debt that was maturing or had been called early, and to contribute to the Province's sinking fund and Public Debt Retirement Fund for the future repayment of debt. The Province took advantage of call provisions in some outstanding debt to refund the debt during a period of favourable interest rates. The Province raised most of these funds in the domestic Canadian public market and through private placements and structured notes under the Province's domestic medium term note program. The Province also refinanced some debt through the Canada Pension Plan.

Financial Risk Management

In fiscal 1998-1999, the Province reduced its exposure to short-term interest rates in the debt portfolio to 19 per cent from 28 per cent a year earlier. This reduction was in part due to the actions undertaken by the Department of Finance to reduce floating interest rate exposure in reaction to the Bank of Canada's interest rate hike in August 1998.

Debt Servicing Costs

Gross Debt Servicing Costs for the 1998-1999 fiscal year were \$952.4 million, which was \$130.5 million higher than the Budget estimate of \$821.9 million. The largest single reason for the increase is that the Province changed its presentation of foreign exchange gains/losses to be consistent with generally accepted accounting principles. The previous accounting policy amortized the gains and losses over a 20 year period; the new accounting policy amortizes the gains and losses over the remaining term of an issue, which resulted in \$71.5 million of the increase. An additional \$197.2 million should have been amortized in prior years and is shown as a prior year's adjustment on the Statement of Net Direct Debt. The weaker Canadian dollar accounted for the remainder of the increased costs.

Net Debt Servicing Costs - Consolidated Fund

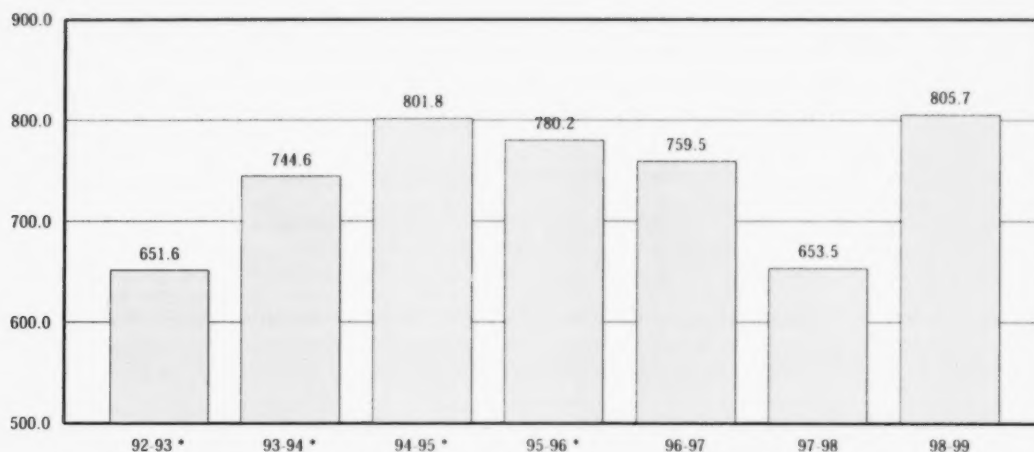
(\$ millions)

	ACTUAL 1997-1998 (restated)	ESTIMATE 1998-1999	ACTUAL 1998-1999	VARIANCE Increase (Decrease)
Gross Debt Servicing Costs	785.9	821.9	952.4	130.5
Less: Sinking Fund Earnings	132.4	131.2	146.7	15.5
Net Debt Servicing Costs	653.5	690.7	805.7	115.0

Note: The Province budgets its debt servicing costs on a gross basis less earnings on the Public Debt Retirement Fund. Net Debt Servicing Costs have been provided for comparison purposes with other jurisdictions. Sinking Fund Earnings are reflected in the Statement of Revenues and Expenditures.

**Net Debt Servicing Costs - Consolidated Fund
1992-1993 to 1998-1999**

(\$ millions)



* The fiscal years 1992-1993, 1993-1994, 1994-1995 and 1995-1996 have not been restated to reflect the accounting changes related to Foreign Exchange Gains/(Losses).

Debenture Debt

The Province's Net Debenture Debt (outstanding debentures less sinking funds and the Public Debt Retirement Fund) was \$8.8 billion in Canadian dollar equivalent at the rate of exchange in effect on March 31, 1999. Of this amount, \$728.3 million represents the difference between the exchange rate at the issue date of foreign currency debt and the rate of exchange in effect on March 31, 1999. This amount will fluctuate from year-to-year based on exchange rates in effect at year-end.

The Province of Nova Scotia provides sinking fund instalments for all debenture and medium term note issues. Annual sinking fund instalments range from 1 to 3 per cent of the original issue and are designed to fully fund the issue over 20 years or the life of the issue, whichever is longer. Sinking fund earnings are treated as trust funds and are used solely for debt retirement. Sinking funds related to US dollar debt are invested in US dollar denominated securities.

**Debenture Debt, Sinking Funds and
Debt Retirement Funds**

(\$ millions)

	Outstanding Debentures	Sinking and Retirement Funds
	(CDN\$ Equivalents)	
Debentures Payable in Canadian Dollars		
Canada Pension Plan Investment Fund	1,173.1	532.1
Other Issues	4,293.8	465.8
United States Dollars	4,696.6	550.2
Other Foreign Currencies	1,275.6	192.0
Debt Retirement Funds	---	886.6
	11,439.1	2,626.7

Gross and Net Debt

(\$ millions)

	ACTUAL 1997-1998	ESTIMATE 1998-1999 (restated)	ACTUAL 1998-1999
Gross Debt			
Opening Balance	10,781.8	10,778.3	10,927.5
Borrowing Program/Related Investments	1,782.0	639.2	1,367.9
Debt Retirement and Short Term Investments	(1,610.5)	(705.1)	(972.9)
Foreign Exchange (Gain)/Loss	41.0	(16.0)	463.8
On-lending to Government Organizations and Government Business Enterprises	(324.7)	—	(180.2)
Change in Net Unfunded Debt	257.9	25.7	130.3
Closing Balance	10,927.5	10,722.1	11,736.4
Less: Public Debt Retirement Funds			
Opening Balance	709.5	780.0	780.0
Instalments	0.8	100.0	18.8
Earnings including Foreign Exchange Gain/(Loss)	69.7	45.6	89.8
Debt Retirement	—	(438.6)	—
Closing Balance	780.0	487.0	888.6
Less: Sinking Funds			
Opening Balance	1,552.3	1,642.3	1,642.3
Instalments and Serial Retirements	192.3	225.3	173.0
Earnings including Foreign Exchange Gain/(Loss)	132.4	134.0	185.2
Debt Retirement	(234.7)	(291.0)	(260.3)
Closing Balance	1,642.3	1,710.6	1,740.2
Net Debt	8,505.2	8,524.5	9,107.6

Gross Debt includes outstanding debentures, short term promissory notes net of related investments, debt associated with hospitals and public schools, debt assumed for Teacher's Pension Fund, and Members' Retiring Fund, less on-lending. The amount does not include the deficiency in net assets of the Crown corporations, Nova Scotia Resources Limited and Sydney Steel Corporation, nor certain pension liabilities.

Economic Information

Economic Indicators

	1994	1995	1996	1997	1998	1999
Gross Domestic Product at Market Prices (\$ millions)	18,628	19,263	19,360	20,199	20,689	21,477
Annual % Change	1.7	3.4	0.5	4.3	2.4	3.8
Gross Domestic Product at Market Prices (Constant 1992 \$ millions)	18,256	18,578	18,602	19,124	19,674	20,293
Annual % Change	0.3	1.8	0.1	2.8	2.9	3.1
Personal Income (\$ millions)	17,637	18,016	18,068	18,586	19,169	19,877
Annual % Change	0.8	2.1	0.3	2.9	3.1	3.7
Consumer Price Index - Nova Scotia (Annual % Change)	1.1	1.5	1.7	2.1	0.6	1.3
Population (thousands of persons)	926	928	931	935	936	937

Source: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PPB
Nova Scotia Department of Finance

Note: The 1999 forecast is revised, based on Statistics Canada's Provincial Economic
Accounts data, released on November 10, 1999.

Economic Performance

Output

Nova Scotia recorded solid economic growth in 1998, propelled by business investment spending, export trade and tourism. In their recently released economic accounts data, Statistics Canada has reported that real Gross Domestic Product (GDP) for Nova Scotia expanded by 2.9 per cent in 1998. This growth occurred on top of the upward-revised 2.8 per cent growth rate for 1997.

The inflation-adjusted value of private sector capital investment spending increased 23.7 per cent in 1998, resulting chiefly from large-scale non-residential construction projects. Construction of a new supercalendered paper mill by Stora Enso in Port Hawkesbury was completed and brought into production during the year, and a multi-year modernization and expansion program continued at the Michelin tire manufacturing plants.

In addition, a major impetus to investment spending came from acceleration in the pace of development in the Sable Offshore Energy Project. Moreover, this project had a positive impact on businesses in many of the province's industry sectors. Manufacturing, construction, transportation, and business services firms have benefited from offshore gas development.

The value of exports of goods and services to all destinations outside Nova Scotia grew 7.3 per cent in 1998, after adjusting for inflation. This growth was due primarily to exports to other countries rather than to other provinces. For 1998, exports to other countries were up 11.7 per cent compared to 2.1 per cent to other provinces.

Most of the growth in exports to international markets resulted from increased demand for Nova Scotia goods and services from customers in the United States, where that economy has been on an upward trend for several years.

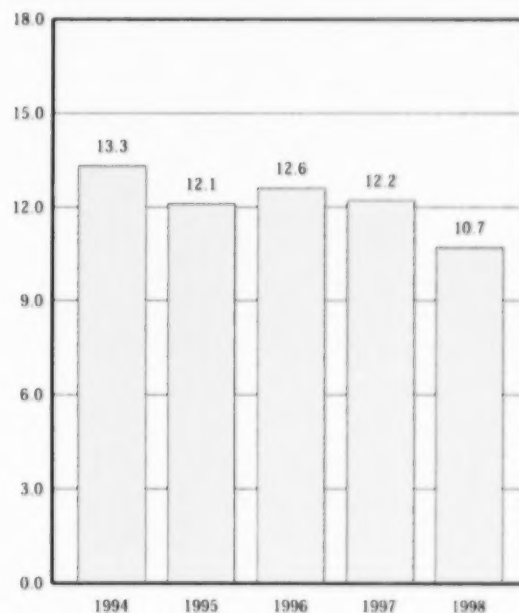
The province's tourism industry experienced another strong, and record-breaking year in 1998. Tourism receipts reached \$1.1 billion in 1998, an increase of nearly 6 per cent over 1997. This growth in receipts buoyed the export of services, which grew more rapidly than the economy as a whole.

Labour Markets

A record number of Nova Scotians had jobs in 1998. Employment grew 3.0 per cent and the number of jobs averaged 403,700 for the year. The net gain of 11,800 in employment was mostly in full-time jobs. With the demand for employees growing at a faster pace than the labour supply, the unemployment rate dropped. In 1998, the unemployment rate averaged 10.7 per cent, 1.5 percentage points lower than 1997.

Unemployment Rate

(percent)



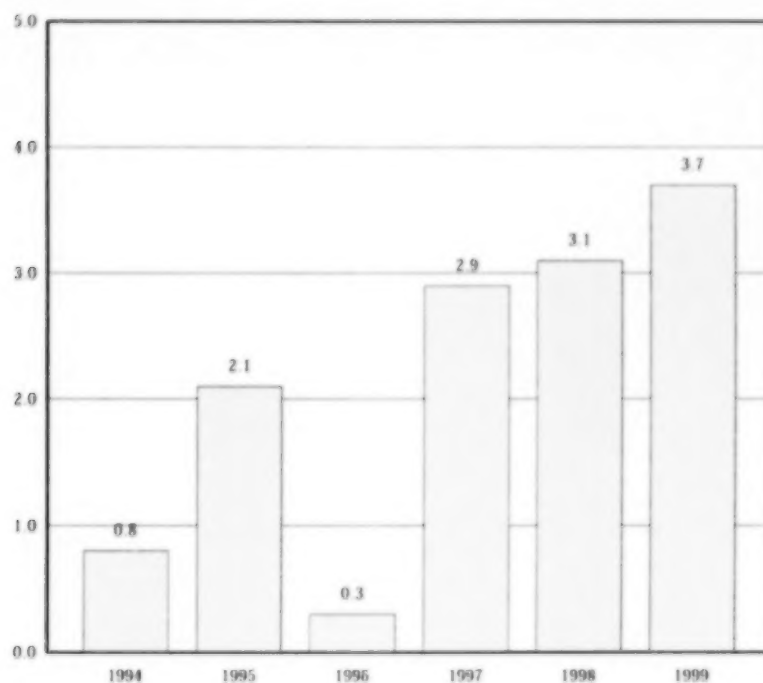
Income and Consumer Spending

Personal income growth continued to improve in 1998, rising by 3.1 per cent. Labour income, the largest component of personal income, posted a gain of 3.4 per cent. This resulted directly from the strong growth in employment. Other sources of income held back the growth in total personal income. Transfer payments to Nova Scotians were up 2.0 per cent. Investment income declined by 2.7 per cent, pulled lower by falling interest rates. Overall, however, real personal income increased as inflation, measured by the Consumer Price Index, was only 0.6 per cent in 1998.

Solid employment and personal income growth translated into strong growth for retail sales which recorded growth of 4.2 per cent. The total value of consumer spending on all goods and services was up 3.4 per cent.

Personal Income Growth

(percent)



Industry Performance

Goods Industries Output

Goods-producing industries contributed approximately 24 per cent to the output of final goods and services in the Nova Scotia economy in 1998, up slightly from 1997. The value of total output from the goods producing industries was up 3.3 per cent in real dollars in 1998.

All sectors reported increases except mining and forestry which had declines. The largest increase in output was construction with a 9.8 per cent increase, chiefly as result of construction activities related to Sable gas development. Manufacturing output grew 2.4 per cent in 1998. Forest products and railcar manufacture were leading sources of growth in production from this industry sector. Agriculture, fishing and utilities all realized positive growth for the year.

Goods Industries GDP 1998

(As a % of Total Goods GDP)



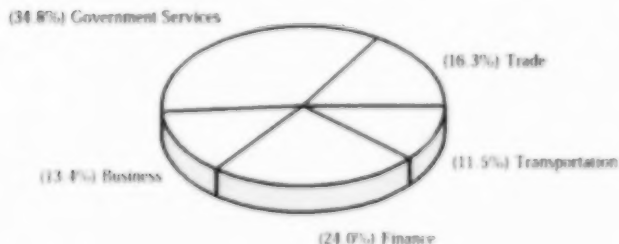
Services Industries Output

Nova Scotia is predominantly a service-sector economy. Services industries account for fully 76 per cent of the provincial economy's output and registered a 2.2 percent gain in output in 1998.

The public sector is the largest component of the services sector. Within government services, health was the only sector to report an increase in output. Public administration (federal, provincial and local governments), education and national defence experienced a reduction in output. Restraint in federal government and defence spending was the main reason for the slight reduction in output in the government services sector in 1998.

Services Industries GDP 1998

(As a % of Total Services GDP)



The strongest growth in the services sector occurred in communications and in accommodation and food services. Both sectors posted 7.8 per cent growth in 1998. More cellular telephone use and another banner year in tourism help to explain these increases. Transportation output was up 4.5 per cent, business services 3.3 per cent, and wholesale and retail trade 3.1 per cent. Growth in these sectors reflects the positive impact on business opportunities in Nova Scotia from the development of offshore natural gas. Finance, insurance, and real estate had modest growth in an environment of ongoing restructuring in this industry sector.

This document, the complete Public
Accounts and other financial publications
may be obtained by writing to:

Kevin D. Malloy, CA
Controller
Department of Finance
Post Office Box 187
Halifax, Nova Scotia
B3J 2N3

E-Mail: infofinance@gov.ns.ca

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Department's Internet Website at:

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